



Mr. B D A Perera
Executive Director



INTELLECTUAL CAPITAL

Six question roundup with our Leaders



Mr. Sumith Adhietty
Managing Director

Q1 What intellectual capital means to LBF?

Intellectual capital is like our DNA. It is the intangible factors that define who we are. These are; our brand, our information technology assets, control systems and frameworks, and knowledge-based assets.

Q3 What are the key material drivers identified, which were raised by the stakeholders?

Based on our materiality determination process, we have identified the following matters as material to our intellectual capital. Each matter is grouped under a relevant materiality theme that speaks to our broader operating context.

Process excellence	Online customer support	Business model Innovation
Information security	Technological Advancement	

Q5 What are the key strategic drivers for developing intellectual capital and how does the Company manage trade-offs against other capitals?

Intellectual capital by nature has a minimum impact on other capitals, except for the cost outlay (Financial capital) of implementation which includes

- ▶ Adherence to the latest globally accepted best practices.
- ▶ Continuous R & D to boost ideation and innovation capabilities.
- ▶ Pursue automation to improve internal efficiency.

Q2 How intellectual capital supports our value-creation goals?

Our intellectual capital is one of LBF's key competitive advantages that sets us apart from our peers. We often combine different elements of our intellectual capital to achieve our strategic objectives and stakeholder value creation goals.

Q4 What are the challenges and opportunities associated with developing intellectual capital?

The key challenge associated with developing intangibles is that it requires close monitoring of the macroeconomic environment, including the regulatory and competitive environments as well as local and global trends having an impact on financial services institutions.

Customers' growing desire to access financial services from digital channels has led to a surge in new financing technologies that are reconceptualising the financing industry.

Q6 What is LBF's approach to differentiate its intellectual capital from peers?

Ensuring that our product knowledge, information systems, digital strategy and culture, continues to evolve in response to the growing demand of the market, is also one of our foremost priorities. Ongoing digital product research and system capabilities to determine the appropriateness of each product to the customer in the current market context as well as specific research to AI technology and business process development augment our knowledge on market intricacies, changing customer perceptions and identify emerging trends, all play a vital role in enabling LBF to stay ahead of peers by being first-to-market through the release ground breaking new products.

STAKEHOLDER'S EXPECTATIONS

		STAKEHOLDERS					
MATERIALITY	In-house software development	✓	✓			✓	
	Business process digitalization	✓	✓		✓	✓	
	Knowledge management	✓	✓	✓	✓		✓

SPACE FOR DEVELOPMENT

- Move to a cloud-based environment to maintain more effective BCP control Strengthen the internal governance of information security and data privacy
- Better use of AI technology based robotic process automation and predictive analysis to increase internal efficiency

CHALLENGES

- Risk associated system failures and connectivity failures
- Rapid increase in cyber threats
- Competitive pressure in the digital finance space

WAY FORWARD

- Enhance loan processing by incorporating automatic data analysis tools
- Focus on the digital financial products and services
- Drive digital media penetration

Related strategic themes



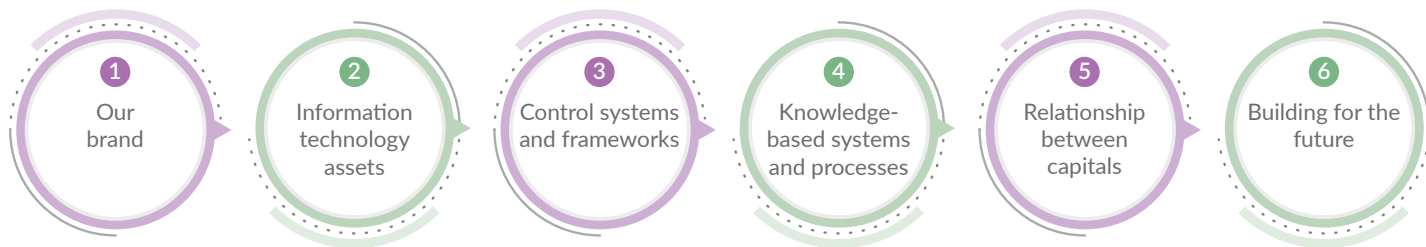
SDG Impact



- CIM APP DOWNLOADED **+180,000**
- BRAND VALUE **Rs. 5,821 Mn** by Brand Finance
- DEDICATED DIGITAL FINANCIAL SERVICES (DFS) UNIT
- INFORMATION SECURITY STANDARD RECERTIFIED **ISO 27001:2013**
- INVESTMENT ON SOFTWARE DEVELOPMENT **Rs. 15.94 Mn**
- DIGITAL LOAN DISBURSEMENT **Rs. 60 Mn**
- NO OF CIM WALLET TRANSACTIONS **+2 Mn**

INTELLECTUAL CAPITAL

MANAGING INTELLECTUAL CAPITAL - MAKING THE RIGHT MOVE AT RIGHT TIME



1 OUR BRAND

Right from its inception and over the past five decades, LBF has been driven by its purpose - to bring prosperity to people and businesses around Sri Lanka and more recently in Myanmar. Regardless of where we operate, we continue to be anchored by our core brand value; excellence, quality, innovation, professionalism, ethics, and transparency, which has allowed us to earn the trust and respect of our stakeholders. Today, LBF stands as a top-tier financial services institution in Sri Lanka and has been declared one of the fastest-growing micro-finance companies in Myanmar. On an overall basis, resilient earnings and a solid balance sheet have allowed LBF to maintain a consistent national

long term rating of A-(Ika) by Fitch Ratings, a further testament to the strength of our risk and governance foundations.

Investing in our brand

Our brand identity is an important component of our intellectual property and a driving force behind our corporate plans and decisions. There is no denying that our brand promise will need to constantly evolve for LBF to stay ahead in the highly competitive NBFi industry. This means, the key differentiator of our brand promise - our approach to Customer Relationships Management (CRM) which we like to call our customer experiences program, will need to evolve at a

CRITICAL SUCCESS FACTORS

- ▶ Seamless digital processes
- ▶ Improved user and workforce experience
- ▶ Reliable and trusted service delivery

faster pace than the industry. To that end, we will continue to invest in technology as the primary brand augmentation strategy. Brand protection too will remain a key priority. We will strive to preserve the integrity of our brand and its industry ranking through the launch of new brand guidelines to ensure greater uniformity and standardisation in the visual presentation of the LBF brand.

2 INFORMATION TECHNOLOGY ASSETS

Our IT systems collectively create a solid ecosystem to position LBF as the most digitally connected financial service provider in Sri Lanka. Since starting our digital journey in 2010/11, we have systematically deepened our investment in IT infrastructure through a combination of in-house developments and licensed software procured from reputed global vendors.

Licensed software is typically for our core systems infrastructure, while in-house developments which are managed under the purview of LBF's IT team, focus on continuous

system improvements to facilitate internal process efficiency ultimately leading to more effective service delivery to customers and other stakeholders.

Apart from this, our Digital Financial Services (DFS) team is tasked with building functional interfaces that alternative revenue streams to support our strategic growth objectives. The flagship product developed by the DFS is the LB CIM wallet app launched in 2020, a highly versatile digital financial tool equipped with end-to-end functionality for an unparalleled customer experience.

In recognition of ongoing improvements to enhance the functionality of the LB CIM interface, LBF was declared the category winner in business model innovation in digitized product/service category at the FITIS Digital Excellence Awards 2022. At the same forum, the LB CIM wallet application also clinched the bronze award for the most innovative digital service offering.



IN HOUSE SOFTWARE

- ▶ Common business partner management module
- ▶ Common cashier module
- ▶ Gold loan module
- ▶ Credit origination module including iOS oracle profitability management modules and android mobile apps
- ▶ Savings module
- ▶ Fixed deposit module
- ▶ Money exchange module
- ▶ MIS reporting services



LICENSED SOFTWARE

- ▶ E-financial system leasing, treasury modules
- ▶ Oracle fusion ERP cloud
- ▶ Oracle budgeting and planning modules
- ▶ Oracle profitability management modules
- ▶ ATM switch
- ▶ HRIS system
- ▶ Document management system
- ▶ Customer relationship management system
- ▶ Internet banking and e-wallet (iOS & Android)
- ▶ E-learning platform
- ▶ Robotic process automated software
- ▶ Data visualisation and modelling software



IT System Development - Initiatives for 2022/23



AREA OF IMPROVEMENT	IMPACT TO BUSINESS	IMPACT TO CUSTOMERS
Integration with CRIB backend	Seamless verification of customer credit profiles in real time has greatly simplified the credit evaluation process while improving overall cost efficiencies	Faster turnaround time between credit application to disbursement
Updated the corporate website with the inclusion of AI-based digital imagery	More dynamic platforms to enhance information and user engagement	User-friendly interface and interactive features for a better user experience

3 CONTROL SYSTEMS AND FRAMEWORKS

Business continuity planning

As a large financial institution, LBF considers Business Continuity Planning (BCP) to be a top priority. A robust BCP framework based on the CBSL guidelines and further benchmarked against global standards is in place to ensure our people, premises and all critical business functions can continue without interruption in the event of an unforeseen crisis. Our BCP framework includes a formal BCP policy and Board approved crisis management plan together with the schedule of BCP drills.

The colocation data centres established in 2020 as a BCP measure amidst the pandemic, continued to provide critical support for the execution of our BCP program this year as well.

Information security risk management architecture

Keen to prove its commitment to managing cyber risks and safeguarding data assets, LBF has for the past eight years been operating under the ISO 27001 Information Security Standard certification. The certification, which covers all operations including LBF's Center for Technology and Innovation (CIT), was renewed in mid-2022 following the successful conclusion of the compliance audit.

Going beyond the ISO requirements, our internal information systems (IS) audit

team to engage in continuous and ongoing monitoring of the systems and processes in place to safeguard information assets. The IS audit team applies a risk-based approach to determine the applicable areas in a contextual sense, with due consideration of internal and external cybersecurity risk factors, industry-specific technology risks, company internal technology advancements/changes, in-scoping high-risk cyber security, and IT operational process areas and the technology impact on high-risk business processes of the Company. While taking into consideration these aspects, our comprehensive IS audit program is prepared in line with industry best practices such as COBIT, NIST, CIS, and ISO 27001:2013 standards as well as regulatory requirements set out under the Information and Communication Technology Act No. 27 of 2003, Payment and Settlement Systems Act No. 28 of 2005 and other guidelines issued by the CBSL.

The annual IS audit plan covers critical IT infrastructure, critical systems, supporting IT operational processes, cyber security, and information security aspects, including a review of LBF's; IT policy/procedure/guidelines. Independent vulnerability management audits for external facing web environments and mobile apps, software development life cycle audit, database administration, server administration, network security, cloud environment governance, IT DR, information systems access management, endpoint security, software compliance, etc. are also key components of our IS audit plan. New

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CAPITAL REPORTS

INTELLECTUAL CAPITAL

system implementations/expansions during a particular year are also included in the annual IS audit plan for the year. Over and above this, special thematic audits are conducted from time to time. These include IT supplier security, IT operation processes (backup, restoration, etc.), IT/information security risk assessment process, IT assets management, IT capacity management process, information security incident management, etc. audit plans are submitted to the Board Audit Committee (BAC) for their recommendations and approval, before being operationalised.

In the current financial year, the IS audit team took several additional measures to safeguard LBF's information security systems amidst ongoing challenges. The frequency of thematic audits was increased to verify if fundamental cyber security controls were being enacted according to established policies and procedures, especially by recruits. A series of special audits were carried out including web-based application security assessments, mobile app-based security assessments, and phishing simulations to ensure the Company has in place all appropriate control measures to mitigate new cyber risks/ attack vectors coming through the external cyberspace. An extra security layer was implemented to enable continuous assessment of the privilege activity monitoring function, while more frequent checks were done in connection to the user access management function. The IS team also began engaging more proactively with core IT teams to understand risk factors and control requirements of new technology adaptations/ new system developments in order to ensure all relevant risk factors are addressed prior to the live rollout of these initiatives.

Data privacy framework

To reinforce its commitment to data privacy, LBF strives to benchmark global best practices to create a secure environment for the protection of customer information. Our IT compliance and Information security team provides stewardship for all data protection matters as per LBF's Board approved data privacy policy. The team takes a 360° approach to review and update all administrative, organisational, technical, and physical safeguards in order to strengthen the resilience of the Company's data protection environment on an ongoing

basis. More recently we have also started leveraging the latest AI-based tools to flag possible internal threats.

In 2022, LBF began working towards early adoption of the mandates set out under the Personal Data Protection Act No. 9 of 2022. As a first step, we introduced a cookie policy to LBF's newly updated corporate website. In parallel, an internal study was carried out to determine the scope of Personal Identifiable Information (PII) as relevant to our business. Based on our findings, we are currently working on establishing the parameters needed to implement a suitable framework for safely managing PII. We are currently in the process of evaluating appropriate solutions to support these efforts.

Information security governance

Information Security Governance plays a vital role in building our defenses against internal and external attacks that could compromise the integrity of our data assets. In this regard, LBF's Information Security Officer (ISO) is responsible for identifying, protecting, detecting, responding, and recovering IT functions / Controls and reports, tracking and following up on remediation plans in compliance with regulatory and statutory requirements applicable to information technology, data, and information security.

Developing critical and scarce skills

Training programmes for 2022/23

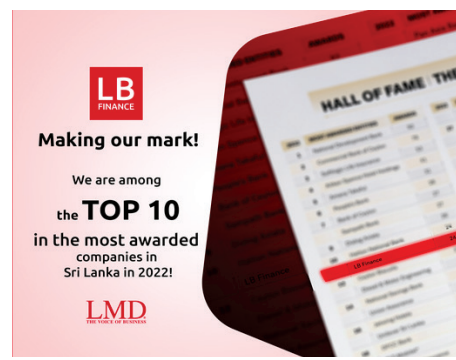
Programme	Focus	No. of training	Medium
Orientation program for newly recruited employees	IT operation and systems	9	Physical and online
Information security awareness program	Password practice, ransomware, networking information threats	12	E mail campaign physical and online

Main focus areas

- ▶ Network, Security & Infrastructure.
- ▶ Database.
- ▶ System Support.
- ▶ IT Operations.
- ▶ IT Help-Desk.
- ▶ Digital Channels.
- ▶ Software Development.

Duties and responsibilities of the ISO

- ▶ Review and monitor privileged access activities.
- ▶ Coordinate internal and external IS audits.
- ▶ Coordinate the functions related to ISO 27001:2013 certification.
- ▶ Review and recommend to the BAC regarding amendments to IT-related policies and operational procedures based on the compliance requirements.
- ▶ Weekly/monthly/annual monitoring of information security and cyber risks.
- ▶ Follow up on corrective and preventive action plans of audit findings.
- ▶ Conduct information security awareness campaigns.
- ▶ Coordinate vulnerability assessments and penetration tests.
- ▶ Conduct due diligence assessments, and security reviews on vendors.



Process Improvements for FY 2022/23 using data science

Area	Benefit
Profitability dashboard linked to the oracle profitability and cost management modules to provide real time analysis of branch-wise and product-wise profitability	Supports informed decision making for corporate and middle managers
Top up facility identification dashboard to identify customers with underutilised debt capacities.	Empowered marketing officers to drive granting volumes
Credit scoring for gold loan customers gold	Enables sales teams to customise granting decisions based on a quantitative assessment of the individual customer's credit profile
Call center customer rating dashboard to analyse the customer complaints and customer satisfaction levels/feedback	Allows corporate management to assess the effectiveness of customer service levels and identify pain points in the complaint resolution process
Customer segmentation analysis for LB CIM customers	To support efforts to develop a customer loyalty programme based on customer usage statistics - high, frequent, irregular, dormant etc.
Daily flash dashboards to capture the performance of core business activities - gold loan, credit, savings & FD	Enable informed decision making at a strategic level

4 KNOWLEDGE-BASED SYSTEMS AND PROCESSES

Innovation capabilities

In recent years, our quest for innovation has been partly fuelled by robotic process automation to drive internal efficiencies that achieve a distinctly lower cost-to-serve, translating into more timely, relevant, and affordable financial products and solutions. To date, we delivered the data infrastructure, data pipelines, models, and analytics that generate data insights based on user events and activities, and we have built an AI and machine-learning infrastructure to support both ongoing data-driven insights and real-time delivery of insights to customers, merchants, and tenants based on their behaviour on the platform, serving their needs at the moment with relevant recommendations and offers.

At the same time, we are looking to actively leverage social media's AI and big data capability to interact more frequently with our customers to deepen our understanding of their evolving needs and respond quickly and effectively.

In recent years, especially since the pandemic, our quest for product and process innovation has been driven in equal parts by Robotic Process Automation (RPA) and Data science. Today we leverage advanced

analytics and AI-based machine learning tools to drive internal cost efficiencies as well as to support our customer service excellence goals.

Customised research

In the past five years, LBF has come to seek out research-based insights to drive innovation and cost efficiencies across its operations. Since it was first established in 2020, our in-house data science team - the Center for Technology and Innovation (CTI) - has been leading the research front.

In the current financial year, the CTI entered into two long-term partnerships with leading state universities in Sri Lanka. The first was with the University of Moratuwa (UoM) to gain access to UoM's academia in relation to the data science field and the second with the University of Colombo (UoC) was to collaborate with UoC's IT faculty to commercialise viable financial solutions.

Due diligence

As a large financial services institution, we realise the importance of being proactive in carrying out due diligence to verify the efficacy of our internal systems and processes. LBF's Internal Audit Department (IAD) has been assigned as the main facilitator of due diligence activities and provides independent assurance to the board, audit committee, and management,

regarding the efficacy of the Company's risk management, governance, and internal control processes in supporting corporate objectives. To that end, the IAD conducts four types of audits - process audits focused on evaluating the effectiveness and efficiency of specific processes; gold loan audits to verify the accuracy and completeness of gold articles retained; branch audits to measure the risk profile of each branch against established risk metrics; cash audits that usually take the form of spot checks to compare cash collections against documented sources.

In this way, the IAD serves as the third line of defense of the group by providing objective insights, evaluation of business risks and protection of assets, validation of business and/or process controls, cost and waste reduction opportunities, effective corporate governance, assurance on legal and other regulatory compliance.

In the current financial year, the IAD initiated several programs to strengthen due diligence in certain areas. With the rapid growth in our gold loan portfolio raising the risk of fraudulent articles being held as collateral, the IAD introduced a series of new exception monitoring guidelines along with special training to inculcate the "anti-fraud culture" at the branch level.

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

CAPITAL REPORTS

INTELLECTUAL CAPITAL

Internal audit update for 2022/23

Focus area	No. of audits and key processes audited	Improvements made	Impact to LBF
Branch Operations	<p>Gold loan audit process - More than 700</p> <p>Cash / surprise verifications - More than 850</p> <p>Credit and Lending - More than 90</p> <p>FD and savings - More than 90</p>	<ul style="list-style-type: none"> ▶ Insisted on new policies/procedures or amending the existing to implement more compliance towards culture and create accountabilities for non-compliances ▶ Addressed internal control gaps in the process of the auditees in concurrence with respective process owners ▶ Implemented self-detection mechanisms to act efficiently in remediating non-compliances. ▶ Implemented exception monitoring mechanisms to duly act on abnormal transactions. 	<ul style="list-style-type: none"> ▶ Avoided undue delays in the processes and improve the efficiency ▶ Mitigated the operational risks ▶ Compliance with internal and external compliance requirements ▶ Identified opportunities for process automation, standardization, and optimization. ▶ Process led to increase efficiency, reduced duplication of efforts, and improved resource allocation.
Administrative Operations	<p>Credit Operation - 1</p> <p>Recovery Operation - 1</p> <p>Savings Operation - 1</p> <p>Gold Loan Back office function - 1</p> <p>Digital Financial Service (DFS) - 1</p>	<ul style="list-style-type: none"> ▶ Strengthen the internal control system of respective processes by implementing various control mechanisms such as segregation of duties, system validations, authority delegation, establishing effective monitoring mechanisms to detect and prevent fraudulent activities ▶ Insisted to revamp certain existing processes, policies and procedures to ensure that they are comprehensive, up to date, and aligned with industry best practices. ▶ Agreed on clear timelines and accountabilities to effective follow up of respective processes. ▶ Conducted in-depth process reviews and recommended the opportunities available leveraging technology to improve the operations. ▶ Recommended to enhance the real-time exception monitoring mechanism to address abnormalities without incurring costs. ▶ Highlighted process improvements that require to strengthen the external and internal compliance requirements. 	<ul style="list-style-type: none"> ▶ Mitigated the operational risk. ▶ Enhanced process efficiencies and effectiveness by minimizing errors at the initial stages to avoid disputes. ▶ Strengthening internal controls, ensuring compliance with regulatory requirements ▶ Mitigating fraud risks, reputational damages ▶ Independent assurance on processes and controls shall instil confidence of all stakeholders the that organization is effectively managing risks and complying with applicable regulations

Focus area	No. of audits and key processes audited	Improvements made	Impact to LBF
Information Technology & Cyber Security	IT Operations - 5	▶ Contributed to uncover control gaps and enhance IT design documentation, aligning them with industry-leading best practices and standards.	<ul style="list-style-type: none"> ▶ Independent assurance over the management fulfilment of confidentiality, integrity and availability aspects of technology resources. ▶ Fulfilment of ISO 27001 ISMS internal audit requirement ▶ Reducing the number of recurring critical, high risk issues reported by other 3rd party auditors ▶ Acted as the independent assurer to Audit Committee (AC), Integrated Risk Management Committee (IRMC) and Senior Management with regard to LBF information technology and cyber risk. ▶ Assurance over fulfilment of technology specific statutory and regulatory control requirements
	IT Infrastructure - 5		
	Cyber Security - Vulnerability Assessments - 2	▶ Exercised diligent oversight of crucial IT processes, ensuring seamless adherence to established policies and procedures to maintain continuous compliance levels.	
	Software Development - 1		
	Database Administration - 1	▶ Conducted in-depth specialized security assessments and security benchmarking assessments on the IT critical infrastructure to strengthen the operational configurations	
	Robotic Process Automation - 1		
	Information Security - 3	▶ Implemented a systematic and structured procedure for continuous audit issue follow-up, enabling management to consistently track and monitor progress in resolving identified issues.	
	Governance - 3		
	Quarterly IT Privilege Activity Monitoring - 4	▶ Value adding recommendations had been given to ensure internal control environments are more robust and are not prone for recurring errors.	
	Advisory Reviews (Based on management request) - 7		
Risk and Control Assessments for new implementations - 7	▶ Proactive engagement in key technology implementations and played an advisory role for highlighting possible risks and suggested controls requirements to mitigate those risks.		
Integrated audits - 3			

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction

INTELLECTUAL CAPITAL

6 RELATIONSHIP BETWEEN CAPITALS

Trade-off between capitals

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Investment in digital finance	▲		▲			▲	▲	▲	▲		▲	▲	▲	▲	▲	▲	▲	▲
Branch expansion	▼	▲	▼▲					▲	▲	▲	▲	▲			▲			
Branch relocations	▼	▲			▲	▲								▲	▲	▲	▲	▲

S – Short term M – Medium term L – Long term ▲ Increase ▼ Decrease — Neutral

Reaping benefits of investing in intellectual capital



7 BUILDING FOR THE FUTURE

Strategic objective

Short-term

- ▶ Improve the efficiency of the system audit process using AI technology
- ▶ Complete the migration to the new ISO 27001 - 2022 standard
- ▶ Strengthen the efficacy of the IAD's audit plan through external assurance

Medium-term

- ▶ Expand the scope of the audit plan to cover non-critical systems
- ▶ Appoint a dedicated data protection officer to oversee and respond to complaints regarding data privacy violations
- ▶ Work towards introducing end-to-end automation of the deposit business

Long-term

- ▶ Further enhance the reliability of the BCP model by moving to a cloud-based environment
- ▶ Enable the digital migration of core products

Growth sustainable opportunity
Pursue continuous process enhancements

Vision
Finalise an integrated cost-effective digital strategy for LBF

Strive for business excellence

In our quest to achieve business excellence, we will continue to strengthen our core competencies while at the same time pursuing ever more dynamic ways to improve our systems and processes to satisfy the future demands of our customers, employees, and other stakeholders

Drive technology integration in all aspects of business

We will endeavour to increase technology integration across our operations based on three key pivots - investing in world-class core infrastructure, exploring AI and machine learning tools to improve decision-making, and pursuing value-adding partnerships for knowledge enhancement

Right Solutions

Right Value

Right Direction

Right Experience

Right Vision

Right Strategy

Introduction